

INTERNET



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December 10, 1993

Mr. Jeff Duncan
Subcommittee on Telecommunications and Finance
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Jeff:

Thanks for the opportunity to comment on the letters from Chairman Dingell. In reading the letters to Mr. Levitt and Mr. Duderstadt, the thing that jumped out quickest was the fact that we may have lost sight of the real aim of the NSF project: to determine if there might be a way for the government to take a \$70.6 million job and do it for a few hundred thousand dollars and at the same time serve the public interest in a more effective manner. Our project is an research investigation for a limited term. Our project is not out to take a market away from anybody and our project proposal to the NSF clearly emphasizes the investigative nature of our project. The aim of the Internet project is to learn if we have options and to give policy makers the ability to make informed choices in the future.

Because we are a research project, we do not compete with the commercial providers and do not damage the SEC Edgar Dissemination System. Our activities do not damage Mead Data Central in either of its roles as the data wholesaler or as the first and primary retailer of the information. Let me give you a few aspects of the project that emphasize the non-competitive, complementary nature of what we are doing:

- We specifically purchase the Level 1 Tape Feed, which consists of a compilation of the data that the "Live" feed customers receive throughout the data delivered to us by Federal Express the next day. Mead Data Central (in both its roles) and all the other commercial providers of the EDGAR data will have a jump of 24 hours or more on the Internet data.
- Our contract with NYU (and our contracts with our suppliers) specify a service offering to the Internet of 1 million bits per second of throughput. If you were logged in and transferring files, that might translate to 50 simultaneous users. We will have only a fraction of the capacity it would take to compete with the commercial providers.

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- The Internet will have only minimal software developed specifically for this project. Standard tools will be used on the Internet while commercial providers will have special customized software to offer their users.
- The Internet will have little manual manipulation of the data, a process which the commercial providers use to great advantage to provide a competitive edge for their respective versions of the data. For example, some commercial providers pull balance sheets out of annual reports and manually tag them. While we can do some of those functions, we don't have the large staff necessary to do extensive manual data manipulation.
- Users on the Internet will have to compete with each other for access. If you really need the data, you will have no choice but to contract to a commercial group to have guarantees of reliable delivery.

I believe the misconception that our system is competitive is one of the fundamental reasons for the uneasiness that some people feel about Internet dissemination of EDGAR data. There are, however, a few other points that Mr. Dingell raised in his letter that I would like to address.

Was the project negotiated in secrecy?

The project was originally conceived in a discussion between myself and John Lane, the Chief Information Officer of the SEC. Mr. Lane and I had extensive discussions on how the project should look to be acceptable to the SEC. For example, the presence of NYU as a prime contractor was a direct result of Mr. Lane's input. Mr. Lane and his staff attended at least three meetings to discuss the project, and we had numerous telephone conversations. Only after Mr. Lane and I defined the project did we bring it to the Subcommittee for review and then to NSF and NYU and the other parties. Mead Data Central had copies of the original documents and was invited to take part in the discussions.

I might also mention that the existence of the NSF grant proposal was mentioned in a report by your Subcommittee. While I realize that you may not get mass readership on these reports, they are not exactly a secret.

Is the data secure?

The EDGAR data we will release is no different than the EDGAR data that Mead Data Central will release. While on the Internet server or on the Mead Data Central server, the data is *read only*. End users cannot change the data on any of the servers, commercial or non-commercial.

The questions I would ask would concentrate on the incremental change between the Internet service and the existing commercial providers. Rather than ask if the server operated by the Internet Multicasting Service is secure, for example, I would want to know if it was any more or less secure than the one operated by Mead Data Central. I should note that the Internet Multicasting

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Service includes among its advisors several of the top network security experts in the world and that I'm the author of seven fundamental professional reference books about computer networks. Perhaps we should be more worried about the Nexis system?

Does this project maintain a diversity of sources?

This project is a research project that enhances the diversity of sources. What makes Mead Data Central so profitable is not the mere data: it is the value-added software and information they use to make the data accessible. Putting 10 million pieces of paper into a single stack is not a useful database.

What we are doing is providing the Internet equivalent of a single stack of paper: a raw, unpolished interface. No custom retrieval software is being provided and we are using standard off-the-shelf techniques. By getting the base data out to a wider population, we are greatly increasing the diversity of people who can get at the information.

Is this a long-term commitment by the U.S. government?

Absolutely not. This is a two-year investigation and the Internet Multicasting Service has publicly stated that it has no intention of continuing the project after the original two years. We intend to demonstrate that this technique works and hope that the SEC others will realize that data dissemination should not cost tens of millions of dollars. This is a demonstration project, not a long-term commitment.

In summary, it seems to me that an awful lot of time is being spent worrying about ensuring the profitability of a few government contractors and perhaps not quite enough time is being spent worrying about furthering the fundamental goals of the Securities and Exchange Act of 1934, the Williams Act, and the other laws that mandate the public disclosure of financial information. While I sympathize with the desire of a few commercial firms to make some money, it's important that we also investigate policy options that are perhaps more cost effective or serve the public interest more effectively. This project serves as a research investigation into those options and I'm at a loss how a few hundred thousand dollars spent on a bit of research could possibly hurt a thriving commercial retail industry with revenues in the hundreds of millions of dollars per year.

Please let me know if I can provide more specific comments or other information.

Yours sincerely,



Carl Malamud